Source Rock Royalties Ltd.

Financial Statements

For the years ended December 31, 2024 and 2023

Independent Auditor's Report

To the Shareholders of Source Rock Royalties Ltd.:

Opinion

We have audited the financial statements of Source Rock Royalties Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2024 and December 31, 2023, and the statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2024 and December 31, 2023, and its financial performance and its cash flows for the years then ended in accordance with IFRS® Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

MNP LLP
2000, 112 - 4th Avenue SW, Calgary AB, T2P 0H3 1.877.500.0792 T: 403.263.3385 F: 403.269.8450

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS® Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sergey Fesenko.

Calgary, Alberta

April 24, 2025

MNP LLP

Chartered Professional Accountants

MNP

Source Rock Royalties Ltd.
Statements of Financial Position
(Expressed in Canadian dollars)

As at		December 31, 2024		December 31, 2023
Assets				
Current assets				
Cash and cash equivalents	$	4,635,727	$	1,462,040
Trade and other receivables (note 4)		1,051,358		1,274,292
Prepaid expense		38,401		30,949
Total current assets		5,725,486		2,767,281
Petroleum and natural gas interests (note 5)		20,239,143		24,152,381
Intangible assets (note 6)		250,000		250,000
Deferred tax (note 10)		370,573		88,973
Total assets	$	26,585,202	$	27,258,635
Liabilities				
Current liabilities				
Trade and other payables	$	44,174	$	112,308
Corporate taxes payable		524,662		17,800
Dividend payable (note 8e)		296,288		271,390
Total current liabilities		865,124		401,498
Total liabilities		865,124		401,498
Shareholders' equity				
Share capital (note 8a)		26,762,097		26,478,588
Warrants (note 8a and b)		-		306,682
Contributed surplus (note 8b)		17,629,789		16,765,055
Deficit		(18,671,808)		(16,693,188)
Total shareholders' equity		25,720,078		26,857,137
Total liabilities and shareholders' equity	$	26,585,202	$	27,258,635

Subsequent events (note 13)

Approved on behalf of the Board of Directors by:

"Signed" Brad Docherty
Director

"Signed" John Bell
Director

The accompanying notes are an integral part of these financial statements.

Source Rock Royalties Ltd.
Statements of Income and Comprehensive Income
For the years ended December 31,
(Expressed in Canadian dollars)

		2024		2023
Royalty revenues (note 9)	$	7,689,586	$	6,646,326
Expenses				
Administrative expenses		873,413		853,122
Share-based compensation (notes 8c and 8d)		840,311		775,266
Depletion (note 5)		3,940,341		3,182,685
Total expenses		5,654,065		4,811,073
Income for the year		2,035,521		1,835,253
Other income				
Interest on cash and cash equivalents		136,792		431,356
Income before taxes		2,172,313		2,266,609
Provision for income taxes				
Current tax expense		958,594		570,942
Deferred tax expense (recovery)		(281,600)		129,357
Income tax recovery (note 10)		676,994		700,299
Total comprehensive income	$	1,495,319	$	1,566,310
Income per share, basic (note 8)	$	0.033	$	0.035
Income per share, diluted (note 8)	$	0.031	$	0.034
Weighted average number of shares:				
Basic		45,386,449		45,022,140
Diluted		47,769,195		46,579,059

The accompanying notes are an integral part of these financial statements.

Source Rock Royalties Ltd.
Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Share capital	Warrants	Contributed surplus	Deficit	Total shareholders' equity
As at December 31, 2022	$ 26,292,227	$ 306,682	$ 16,130,994	$ (15,290,508)	$ 27,439,395
Share-based compensation (note 8c and 8d)	-	-	776,909	-	776,909
Stock Option/RSU exercise	186,361	-	(142,848)	-	43,513
Dividends (note 8e)	-	-	-	(2,968,990)	(2,968,990)
Total comprehensive income for the year	-	-	-	1,566,310	1,566,310
As at December 31, 2023	$ 26,478,588	$ 306,682	$ 16,765,055	$ (16,693,188)	$ 26,857,137
Warrants (note 8a and 8b)	1,290	(306,682)	306,642	-	1,250
Share-based compensation (note 8c and 8d)	-	-	840,311	-	840,311
RSU vesting	282,219	-	(282,219)	-	-
Dividends (note 8e)	-	-	-	(3,473,939)	(3,473,939)
Total comprehensive income for the year	-	-	-	1,495,319	1,495,319
As at December 31, 2024	$ 26,762,097	-	17,629,789	(18,671,808)	25,720,078

The accompanying notes are an integral part of these financial statements.

	2024	2023
Operating activities		
Net income	$ 1,495,319	$ 1,566,310
Adjustments for:		
Share-based compensation (notes 8c and 8d)	840,311	775,266
Depletion (note 5)	3,940,341	3,182,685
Deferred income taxes expense (recovery) (note 10)	(281,600)	129,357
Change in non-cash working capital balances		
Trade and other receivables	222,934	(179,466)
Prepaid expense	(7,452)	13,998
Trade and other payables	(68,134)	85,455
Corporate taxes payable	506,862	(660,698)
Cash flows from operating activities	6,648,581	4,912,907
Financing activities		
Dividends paid to shareholders (note 8e)	(3,449,041)	(3,371,050)
Exercise of warrants	1,250	-
Exercise of stock options (note 8c)	-	134,000
Settlement of RSUs	-	(88,844)
Cash flows used in financing activities	(3,447,791)	(3,325,894)
Investing activities		
Purchase of petroleum and natural gas interests (note 5)	(27,103)	(13,277,475)
Cash flows used in investing activities	(27,103)	(13,277,475)
Increase in cash and cash equivalents	3,173,687	(11,690,462)
Cash and cash equivalents, beginning of year	1,462,040	13,152,502
Cash and cash equivalents, end of year	$ 4,635,727	$ 1,462,040

The accompanying notes are an integral part of these financial statements.

1. REPORTING ENTITY

Source Rock Royalties Ltd. ("Source Rock" or the "Company") was incorporated under the laws of the Province of Alberta on October 11, 2012, and has its registered office at 15th Floor, 850 – 2nd Street, SW, Calgary Alberta T2P 0R8.

The primary business of the Company is to receive royalty revenue from oil and natural gas properties as reserves are produced by the operators over the economic life of the properties. The Company is exclusively focused on acquiring and managing oil and gas royalties and mineral title interests. The Company has an oil focused portfolio of royalty interests concentrated in S.E. Saskatchewan, central Alberta and west-central Saskatchewan. The Company is focused on acquiring royalties in properties that have foreseeable future drilling potential and which are operated by fiscally and operationally prudent third parties. The Company is further focused on establishing relationships with third parties via its royalty interests, wherein mutual benefits can be derived from the near-term and medium-term development, and long-term enhancement, of the assets. The Company does not incur any ongoing costs to develop, operate or enhance the lands in which it has royalties, nor does it have any exposure to abandonment or reclamation obligations associated with its royalty lands.

These financial statements were authorized for issuance by the Company's Board of Directors on April 24, 2025.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements of the Company have been prepared in accordance with IFRS® Accounting Standards as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee in effect as of January 1, 2024.

b) Basis of measurement

The financial statements have been prepared on a historical cost basis.

c) Functional currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

d) Use of judgments and estimates

Management is required to make estimates, judgments and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Management reviews these judgments, estimates and assumptions on an ongoing basis, including those related to depreciation, fair values of financial instruments, recoverability of assets and taxes. Actual results may differ from these estimates and these differences may be material.

The key estimates and judgments concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below. Readers are cautioned that the following list is not exhaustive and other items may also be affected by estimates and judgments.

2. BASIS OF PREPARATION (continued)

Judgments

Judgment is used in situations when there is a choice and/or assessment required by management. The following are critical judgments apart from those involving estimations (disclosed below), that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized in the financial statements.

- *Determining cash generating units ("CGU")* - For the purpose of assessing impairment of petroleum and natural gas interests, assets are grouped at the lowest level of separately identifiable cash flows which make up the CGU. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of tangible and intangible assets, each CGU's carrying value is compared to the greater of its fair value less costs of disposal and value in use. As at December 31, 2024, and 2023, the Company had five CGUs, being west-central Saskatchewan, south-east Saskatchewan, east-central Alberta, west-central Alberta and central Alberta.
- *Impairment* - The Company is required to make a judgment regarding whether indicators of impairment exist at each reporting date by evaluating conditions specific to the organization that may lead to the impairment of assets.
- *Taxes* - The Company applies judgment in determining the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain due to interpretations of complex tax regulations, changes in tax laws, and the amounts and timing of future taxable income. Deferred tax assets, if any, are recognized to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to income tax and expenses already recorded.
- *Contingencies* - Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

Estimates

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Areas where there are significant estimates are as follows:

- *Reserves* - Reserves estimates are not recorded in Source Rock's financial statements but they do affect net income and assets and liabilities through their impact on depletion, depreciation and amortization amounts used for impairment calculations and deferred income taxes. By their nature, proved and probable crude oil and natural gas reserves and the future cash flows derived from them are significant estimates, which are subject to measurement uncertainty, and include significant assumptions related to future royalty production from proved and probable crude oil and natural gas reserves and future realized commodity prices. Accordingly, the impact to amounts reported in the financial statements for future periods could be material. Reserves have been evaluated as at December 31, 2024 by the Company's external independent qualified reserves evaluators and have been determined pursuant to National Instrument 51- 101 Standards of Disclosure for Oil and Gas Activities.
- *Accounts receivables* - Accounts are recorded at the estimated recoverable amounts. For the year ended December 31, 2024, Source Rock recorded an expected credit loss of $nil (2023 - $nil).
- *Depletion and residual values of petroleum and natural gas interests* - The amounts recorded for the depletion of petroleum and natural gas interests are based on estimates of petroleum and natural gas reserves. By their nature, these estimates of reserves are subject to uncertainty, and the impact on the financial statements of future periods could be material.

2. BASIS OF PREPARATION (continued)

- *Impairment of non-financial assets* - Impairment exists when the carrying value of a CGU exceeds its recoverable amount, which is the higher of its fair value less cost of disposal ("FVLCD") and its value in use ("VIU"). The FVLCD calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. If no such transactions can be identified, an appropriate valuation model is used.
- *Share-based compensation* - All equity-settled, share based awards issued by the Company are recorded at fair value using the Black-Scholes option pricing model. In assessing the fair value of the equity-based compensation, estimates must be made regarding the expected volatility which are based on comparable listed entities in share price, option life, risk-free rate and estimated forfeitures at the initial grant date.
- *Taxes* - Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in the statement of income and comprehensive income both in the period of change, which would include any impact on cumulative provisions, and future periods.

3. MATERIAL ACCOUNTING POLICY INFORMATION

The principal accounting policies applied in the preparation of these financial statements are set out below.

a) Cash and cash equivalents

Cash and cash equivalents are comprised of cash in banks, and all short-term investments that are readily convertible into known amounts of cash and have original maturities of three months or less.

b) Revenue recognition

Revenue is made up of royalty income. Royalty income is recognized when the Company's interest in the oil and gas rights is either produced or sold in the period by oil and gas producers on specific lands identified by various royalty interest agreements. Royalty income is measured at fair value, using estimates, per the terms of various royalty interest agreements. Actual results could differ as a result of using estimates and any differences are recorded in the period in which actual amounts are received.

c) Petroleum and natural gas interests

Petroleum and natural gas interests are classified under IAS 16 as "Property, Plant and Equipment" and include royalty interests, stated at cost, less accumulated depletion and accumulated impairment losses. A gain or loss on disposal of a petroleum and natural gas interest is recognized to the extent that the net proceeds exceed or are less than the appropriate portion of the capitalized costs of the asset.

Petroleum and natural gas interests are depleted on the unit-of-production method based on estimated proved and probable oil and gas reserves.

d) Impairment of long-term assets

At each reporting date, the Company assesses groups of assets or CGUs for impairment whenever events or changes in circumstances indicate that the carrying value of the CGU may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount.

A CGU's recoverable amount is the higher of its FVLCD and its VIU. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down. In assessing VIU, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. FVLCD is the amount obtainable from the sale of assets in an arm's length transaction less cost of disposal.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the CGU's recoverable amount since the last impairment loss was recognized.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

If that is the case, the carrying amount of the CGU is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depletion, had no impairment loss been recognized for the CGU in prior years. Such a reversal is recognized in the statement of comprehensive income. After such a reversal, the depletion charge is adjusted in future periods to allocate the CGU's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

e) Share-based compensation

The grant-date fair value of share-based payment awards granted to employees, directors or consultants is recognized as share-based compensation expense, with a corresponding increase in contributed surplus, over the period that the individuals become entitled to the awards. Any consideration received on exercise of stock options is credited to share capital along with the amounts originally recorded as contributed surplus.

f) Taxes

Tax expense comprises current and deferred tax. Current and deferred tax is recognized in the statement of comprehensive income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

g) Income per share

The calculation of basic income per share is based on net income divided by the weighted average number of common shares outstanding. Diluted income per share is determined by adjusting the income per share attributable to ordinary shareholders for the effects of all potentially dilutive ordinary shares, which comprise share options, DSUs and RSUs, as defined herein, and warrants granted to employees and directors. All share purchase options are considered anti-dilutive when the Company is in a loss position.

h) Financial instruments

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss ("FVTPL"); (ii) those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and (iii) those to be measured at amortized cost. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade and other receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Financial instrument de-recognition

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognized when the obligation is discharged, cancelled, or expired.

i) Provisions

A provision is recognized if, because of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on associated assets.

j) Equity instruments

Equity instruments issued by the Company are recorded as the proceeds are received net of direct issue costs.

k) Intangible assets

Intangible assets with finite useful lives are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite life intangible assets are reviewed for impairment annually or at any time if an indicator of impairment exists.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

l) Future accounting pronouncements

There are new accounting standards and amendments to accounting standards and interpretations that are effective for annual periods beginning on or after January 1, 2025, that have not been applied in preparing the financial statements for the year ended December 31, 2024. Except as disclosed below, these standards and interpretations are not expected to have a material impact on the Company's Financial Statements.

On April 9, 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements to improve reporting of financial performance. IFRS 18 replaces IAS 1 Presentation of Financial Statements. It carries forward many requirements from IAS 1. IFRS 18 applies to annual reporting periods beginning on or after January 1, 2027. Earlier application is permitted. The key new concepts introduced in IFRS 18 relate to: the structure of the statement of profit or loss; required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements; and enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes. The Company is currently assessing the impact and efforts related to adopting IFRS 18.

On May 30, 2024, the IASB issued amendments to IFRS 9 and IFRS 7 Classification and Measurement of Financial Instruments. These amendments clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system; add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets); and update the disclosures for equity instruments designated at fair value through other comprehensive income (FVOCI). These amendments apply to annual reporting periods beginning on or after January 1, 2026. Earlier application is permitted. The Company is currently assessing the impact and efforts related to the amendments to IFRS 9 and IFRS 7.

4. TRADE AND OTHER RECEIVABLES

Accounts Receivable and Accrued Royalty Revenues		As at December 31, 2024		As at December 31, 2023
Trade receivable and accrued royalty revenue	$	1,042,343	$	1,262,818
GST and other receivable		9,015		11,474
	$	1,051,358	$	1,274,292

Trade receivable and accrued revenue relate to royalty production payments receivable.

The analysis of trade receivable and accrued royalty revenue that are past due but not impaired is as follows:

		Total		Neither past due nor Impaired	Past due but not impaired			7- 12 Months
						3-6 Months		
As at December 31, 2024	$	1,042,343	$	1,042,343	$	-	$	-
As at December 31, 2023	$	1,262,818	$	1,262,818	$	-	$	-

In determining the collectability of trade receivables that are past due but not impaired, the Company considers the age of the outstanding receivables and the credit worthiness of the parties (note 11).

5. PETROLEUM AND NATURAL GAS INTERESTS

Cost		Total
Balance December 31, 2022	$	26,187,708
Additions		13,277,475
Balance December 31, 2023	$	39,465,183
Additions		27,103
Balance December 31, 2024	$	39,492,286
Accumulated depletion		
Balance December 31, 2022	$	12,130,117
Depletion		3,182,685
Balance December 31, 2023	$	15,312,802
Depletion		3,940,341
Balance December 31, 2024	$	19,253,143
Carrying Amounts		
At December 31, 2023		24,152,381
At December 31, 2024	**$**	**20,239,143**

2024:

On December 12, 2024 Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of $27,103.

2023:

On December 4, 2023, Source Rock acquired a gross overriding royalty ("GORR") in approximately 60,800 gross acres (95 sections) of land in the Figure Lake area of Central Alberta for gross proceeds of $8,000,000. (the "December 2023 Acquisition"), with an effective date of October 1, 2023. Sales proceeds for royalty production between the effective date and the closing date amounting to $211,892 were deducted from the purchase price. Transaction costs for the December 2023 Acquisition amounting to $39,723 were added to the purchase price.

On October 11, 2023, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of $164,255.

On June 1, 2023, Source Rock acquired fee title mineral interests in two quarter sections of land and a 2% GORR in approximately 5,800 gross acres (9 sections) of land in S.E. Saskatchewan for gross proceeds of $3,315,000 (the "June 2023 Acquisition"), with an effective date of May 1, 2023. Sales proceeds for royalty production between the effective date and the closing date amounting to $23,594 were deducted from the purchase price. Transaction costs for the June 2023 Acquisition amounting to $24,116 were added to the purchase price.

On April 18, 2023, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of $155,924.

On March 24, 2023, Source Rock acquired a 5% GORR in land located in Central Alberta for gross proceeds of $1,600,000 (the "March 2023 Acquisition"), with an effective date of January 1, 2023. Sales proceeds for royalty production between the effective date and the closing date amounting to $137,949 were deducted from the purchase price. Transaction costs for the March 2023 Acquisition amounting to $9,377 were added to the purchase price.

5. PETROLEUM AND NATURAL GAS INTERESTS

On January 4, 2023, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of $342,515.

Impairment

As at December 31, 2024 and December 31, 2023, there were no indicators of impairment.

6. INTANGIBLE ASSETS

On January 27, 2020, Source Rock entered into an agreement with a S.E. Saskatchewan focused oil and gas company ("E&P Co."), whereby Source Rock paid $250,000 for a right, but not an obligation, to acquire a 2% GORR in all oil and natural gas interests purchased or earned by E&P Co. The agreement is not subject to any geographical boundaries, does not expire and will be required to be assumed by a future party in any change of control scenarios relating to E&P Co.

7. RELATED PARTY TRANSACTIONS

Key personnel transactions

Key personnel includes the Chief Executive Officer, the Chief Financial Officer, the Corporate Secretary and the Directors of the Company. For the years ended December 31, 2024 and 2023, the Company had the following transactions with key personnel.

		2024		2023
Wages and consulting fees	$	467,200	$	442,400
Share-based compensation		829,570		735,380
Total	$	1,296,770	$	1,177,780

Share-based compensation includes share-based consulting fees and a charge for stock options, RSUs and DSUs, as defined herein. For the years ended December 31, 2024 and 2023 the break down is as follow:

		2024		2023
Stock Options	$	21,099	$	43,411
RSUs		470,623		293,864
DSUs		337,848		398,105
Total	$	829,570	$	735,380

In addition, during the year ended December 31, 2024, $36,337 (2023 - $106,000) of costs were incurred to a law firm at which the Corporate Secretary of the Company is a Partner. These fees primarily related to work associated with the Company’s royalty acquisitions and general corporate matters.

All transactions were in the normal course of operations and were measured at the amount of consideration agreed to by both parties. As at December 31, 2024, there was $887 (December 31, 2023 - $36,469) in trade payables and accrued liabilities relating to these transactions.

8. SHARE CAPITAL

a) Common shares

	December 31, 2024		December 31, 2023	
	# of common shares	Amount	# of common shares	Amount
Balance, beginning of year	45,231,645	$ 26,478,588	44,896,645	$ 26,292,227
Shares issued for exercised stock options (note 8c)	-	-	335,000	186,361
Shares issued on vesting of RSUs	350,082	282,219	-	-
Shares issued on exercise of warrants	1,000	1,290	-	-
Balance, end of year	45,582,727	$ 26,762,097	45,231,645	$ 26,478,588

b) Contributed surplus

Balance, December 31, 2022	$ 16,130,994
Share-based compensation (note 8c and 8d)	776,909
Option exercises	(52,361)
RSU settlement	(90,487)
Balance, December 31, 2023	$ 16,765,055
Share-based compensation (note 8c and 8d)	840,311
Expiration of warrants	306,642
RSU settlement	(282,219)
Balance, December 31, 2024	$ 17,629,789

The warrants issued as part of the IPO offering in 2022 expired during the year ended December 31, 2024.

8. SHARE CAPITAL

c) Stock options

The Company created a rolling 10% stock option plan which became effective July 2, 2013. The stock option plan provides options for directors, key management personnel and consultants. A summary of the Company's outstanding stock options as at December 31, 2024 and the changes for the current year, is as follows:

	Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price
Balance, December 31, 2022	2,240,000	1.6	$	0.67
Granted	100,000	3.6		0.90
Exercised	(335,000)	0.8		0.40
Cancelled	(190,000)	0.5		0.85
Balance, December 31, 2023	**1,815,000**	**0.8**	**$**	**0.72**
Granted	260,000	**4.5**		**0.93**
Expired	(725,000)	**-**		**0.85**
Balance, December 31, 2024	**1,350,000**	**0.9**	**$**	**0.69**

For the year ended December 31, 2024, the Company recorded $31,840 (2023 - $69,284) in share-based compensation expense for the vesting of granted stock options with a corresponding amount credited to contributed surplus. As of December 31, 2024, the Company has 1,163,333 (2023 – 1,673,333) exercisable (vested) stock options.

The fair value of stock options granted in 2024 and 2023 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2024	2023
Exercise price	$0.93	$0.90
Dividend yield	0.08	Nil
Expected volatility	33%	35%
Risk-free interest rate	3.62%	7.2%
Expected life	5 year	5 Year
Forfeiture Rate	0.0%	0.0%

d) Restricted Share Units ("RSU") and Deferred Share Units ("DSU")

On June 22, 2022, the Company's shareholders approved a fixed 10% RSU/DSU compensation plan (the "RSU/DSU Plan"). The RSU/DSU Plan provides RSU's and DSU's for directors, key management personnel and consultants.

Each RSU/DSU entitles the holder to acquire one common share of Source Rock, or a cash payment equal to the equivalent value of one common share of Source Rock at the time of vesting, or a combination of both (in the sole discretion of the Company's Board of Directors). RSUs will be settled within 30 days of vesting. DSUs will be settled within 30 days of the holder no longer being an officer, director, employee or consultant of the Company. Because the Company's Board of Directors has the ability to settle the RSUs/DSUs through equity and have not stated and have limited history of settling the RSUs/DSUs in cash, the RSU/DSU Plan will be classified as equity settled. Compensation expense is recognized at the market value of the Company's common shares at the time of grant and recognized over the vesting period with a corresponding increase to contributed surplus. Upon vesting of the RSU/DSU, the amount previously recognized in contributed surplus is recorded as an increase to shareholders' capital. The RSUs granted shall vest evenly over three years on the anniversary date of the grant and the DSUs granted shall vest after one year following the grant date.

8. SHARE CAPITAL

RSUs and DSUs will be credited with dividend equivalents in the form of additional RSUs and DSUs, respectively, as of each dividend payment date in respect of which normal cash dividends are paid on common shares. Dividends are recognized as compensation expense at the market value on the record date at the time the dividend is paid. Dividend equivalents credited to a RSU/DSU holder's account shall vest in proportion to the RSUs and DSUs to which they relate.

A summary of the Company's outstanding RSUs as at December 31, 2024, and the changes for the current year, is as follows:

	Outstanding		Weighted Average Grant Price
Balance, December 31, 2022	313,818	$	0.82
Granted	665,000		0.79
Dividend Equivalent Grants	51,235		0.79
Vested	(111,059)		0.80
Forfeitures	(22,447)		0.85
Balance, December 31, 2023	**896,547**	**$**	**0.80**
Granted	455,000		0.92
Vested	(350,082)		0.81
Dividend Equivalent Grants	85,075		**0.88**
Balance, December 31, 2024	**1,086,540**	**$**	**0.85**

For the year ended December 31, 2024, the Company has recorded $470,623 (2023 - $300,478) in share-based compensation expense with respect to RSUs issued during the year, with a corresponding amount credited to contributed surplus.

A summary of the Company's outstanding DSUs as at December 31, 2024, and the changes for the current year, is as follows:

	Outstanding		Weighted Average Grant Price
Balance, December 31, 2022	562,209	$	0.82
Granted	292,500		0.79
Dividend Equivalent Grants	66,695		0.79
Forfeitures	(33,520)		0.85
Balance, December 31, 2023	**887,884**	**$**	**0.81**
Granted	312,500		0.92
Dividend Equivalent Grants	92,331		0.88
Balance, December 31, 2024	**1,292,715**	**$**	**0.84**

For the year ended December 31, 2024, the Company has recorded $337,848 (2023 - $407,147) in share-based compensation expense with respect to DSUs issued during the year, with a corresponding amount credited to contributed surplus.

8. SHARE CAPITAL

e) Dividends

During 2024, the Company declared dividends of $3,473,939 (2023 - $2,968,990). The total dividends paid during 2024 was $3,449,041 (2023 - $3,371,050).

9. ROYALTY REVENUES

As per note 3b), royalty and other revenue are measured at fair value of the consideration received or receivable, per the terms of various agreements. The transaction price used for crude oil, natural gas, natural gas liquids and other products is based on the commodity price in the month of production specific to the property or interest. The commodity price received, or receivable is based on market benchmarks adjusted for quality, location, allowable deductions, if any, and other factors. Typically, Source Rock would receive the cash payments 30 to 60 days following production or the sale of commodity by the producer.

Revenue and other revenue by product		2024		2023
Oil	$	7,524,957	$	6,486,092
Natural Gas		39,674		80,448
NGL		124,955		79,786
Total royalty revenue	$	7,689,586	$	6,646,326

As at December 31, 2024, there was outstanding trade accounts receivable of $1,042,343 (2023 - $1,262,818).

10. TAXES

The tax effects of deductible and taxable temporary differences that give rise to the Company's deferred tax are as follows:

		2024		2023
Share issue costs	$	141,716	$	212,574
Non-capital loss carry forwards		-		-
Capital loss carry forwards		10,839		10,839
Petroleum and natural gas interest		228,857		(123,601)
Deferred tax asset not recognized		(10,839)		(10,839)
Deferred tax asset	$	370,573	$	88,973

10. TAXES

The components of the Company's net tax expense which has been recorded in these financial statements are as follows:

		2024		2023
Net income before taxes	$	2,172,313	$	2,266,609
Statutory rate		23.00%		23.00%
Expense at statutory rate		499,632		521,320
Share-based compensation		193,272		178,311
Refundable dividend on hand		-		-
Rate difference and other		(15,910)		668
Income tax expense	$	676,994	$	700,299

The continuity of deferred taxes is as follows:

	Balance December 31, 2023	Recognized in statement of comprehensive income	Recognized directly in shareholders' equity	Balance December 31, 2024
Petroleum and natural gas interest	$(123,601)	$352,457	-	$228,856
Share issue costs	$212,574	$(70,857)	-	$141,717
As at December 31, 2024	$88,973	$281,600	-	$370,573

The Company has $nil (2023 - $nil) in non-capital loss carry forwards and $94,255 (2023 - $94,255) in capital loss carry forwards.

11. FINANCIAL RISK MANAGEMENT

Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and commodity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Fair values

The Company's financial instruments recognized on the statement of financial position consist of current assets and liabilities of cash and cash equivalents, trade and other receivables, and trade and other payables and dividends payable. The fair values of the Company's current financial assets and liabilities approximate their carrying values due to their short-term maturities.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the statement of financial position date. As at December 31, 2024, the Company's trade receivable balance was subject to normal industry credit risks and was primarily with four royalty payors which accounted for 80% (2023 - 56%) of the trade and other receivable balance and 68% (2023 - 52%) of the revenue balance. During the year ended December 31, 2024, approximately 81% (2023 – 70%) of Source Rock's total revenue was earned from five (2023 – two) customers. These customers accounted for 81% (2023 – 70%) of total revenue. The Company manages its exposure to credit risk through standard credit granting procedures and short payment terms. The Company attempts to monitor financial conditions of its royalty payors and the industry in which they operate. The carrying amounts of trade and other receivables and cash and cash equivalents represent the Company's maximum credit exposure.

11. FINANCIAL RISK MANAGEMENT

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet financial obligations at the point at which they are due. The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity or obtaining debt financing.

All of the Company's trade and other payables are due in less than one year.

Commodity risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate with changes in commodity prices. Commodity prices for oil and natural gas are influenced by the relationship between the Canadian and U.S. dollar as well as macroeconomic events that dictate the levels of supply and demand. During the years ended December 31, 2024 and 2023, the Company had no commodity price risk related derivative contracts in place. Subsequent to year end, the United States government announced new tariffs on imported goods. The Canadian government then announced retaliatory tariffs and other measures. This has caused significant economic uncertainty and its effects on the Company's revenues and results in the future are currently uncertain.

For the year ended December 31, 2024, the average price realization on the Company's royalty interests was $83.58/boe (2023 - $87.54/boe). If the price realization increased (decreased) by 5%, with all other variables held constant, pre-tax net income would have increased (decreased) by approximately $384,479 (2023 - $332,316).

12. CAPITAL MANAGEMENT

The Company's capital is comprised of cash and cash equivalents and shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management but rather promotes a prudent, repeatable, scalable and sustainable corporate platform that minimizes operating costs, and aims to maximize returns to its shareholders through per share cash flow growth and ultimately payment of a sustainable and conservative dividend. The Company is not subject to any externally or internally imposed capital requirements as at December 31, 2024.

13. SUBSEQUENT EVENTS

On each of January 15, 2025, February 15, 2025, March 15, 2025 and April 15, 2025, Source Rock paid a $0.0065 per share dividend to shareholders of record on December 31, 2024, January 31, 2025, February, 28, 2025 and March 31, 2025, respectively. Further, on April 15, 2025, Source Rock declared a dividend of $0.0065 per share for shareholders of record on April 30, 2025. These dividends were designated as "eligible dividends" for Canadian income tax purposes.